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**ANNUAL REVIEW OF TELECOMMUNICATIONS TRADE AGREEMENTS
HIGHLIGHTS MARKET ACCESS CONCERNS IN MEXICO AND CANADA**

United States Trade Representative Charlene Barshefsky announced today the completion of the annual review of the operation of U.S. telecommunications trade agreements under section 1377 of the Omnibus Trade and Competitiveness Act of 1988.

This year's review, which was completed on March 31, 1998, focussed on WTO members' compliance with the WTO basic telecom agreement, particularly Canada and Mexico; and implementation of a bilateral agreement with Taiwan. Ambassador Barshefsky also noted concerns about Japan's regulation of its telecommunications services market.

"Our Section 1377 review this year produced a new agreement with Taiwan, significantly benefitting U.S. carriers," stated United States Trade Representative Barshefsky.

Canada came under close scrutiny for a restriction that prohibits the routing of international services to or from Canada through the United States. "This restriction raises serious concerns about Canada's compliance with its WTO obligations and is not supported by Canadian carriers. I expect Canada to remove the restriction expeditiously. USTR will keep this problem under active review, and if it is not resolved before August 1, we will challenge the restriction in the WTO," said Ambassador Barshefsky.

There are a number of problems with Mexico's regulation of international and domestic services, including a discriminatory surcharge on inbound international calls and the failure to permit unrestricted resale of telecommunications services. Commenting on Mexico, Ambassador Barshefsky stated, "I am seriously concerned that Mexico may not be living up to its commitments under the new WTO basic telecom agreement. USTR is reviewing this situation expeditiously and will not hesitate to initiate WTO proceedings, if warranted. Mexico can resolve these problems promptly, consistent with Mexico's policy of promoting a competitive telecommunications market."

With respect to telecommunications equipment markets, this past year has demonstrated that one of the driving forces of U.S. exports has been the dramatic growth in new services--a trend greatly accelerated by the coming into force of the WTO basic telecom agreement on February 5, 1998.

“The past twelve months has demonstrated U.S. industry’s ability to put our new trade agreements to good use to increase exports of both equipment and services,” said Ambassador Barshefsky. “In countries where we have bilateral trade agreements covering telecom equipment, U.S. exports were up over 12 percent, reaching almost 7 billion dollars.”

Background

Taiwan. During the section 1377 review, U.S. carriers raised concerns concerning Taiwan’s compliance with a 1996 agreement on wireless services. In the review, U.S. carriers noted that interconnection rates charged by the dominant carrier Chunghwa Telecommunications Co. (CHT) were significantly above cost and posed a major competitive impediment in the wireless services market. These rates appeared inconsistent with the terms of the 1996 agreement, which mandated cost-based interconnection rates. Based on this complaint, USTR negotiated an agreement, concluded on February 20, which will require CHT to reduce its interconnection rates by almost 30 percent in 1998, and to ensure that these rates are completely cost-based by 2001. This will have a major beneficial impact on the new wireless operators which have substantial U.S. investment and will greatly spur the competitive development of this sector.

Canada. A Canadian restriction prevents U.S.-based carriers from enjoying the same opportunities for transmitting international traffic to and from Canada that are being enjoyed by carriers in other countries. The United States believes this restriction raises serious concerns about Canada’s compliance with its WTO obligations. The United States has filed comments in a Canadian regulatory proceeding that addresses this restriction and that is expected to result in the elimination of this restriction by July 1998. If this problem is not resolved before August 1, 1998, the United States will initiate WTO dispute settlement proceedings.

Mexico. While Mexico has made progress in liberalizing its telecommunications services market over the past several years, the United States has serious concerns about Mexico’s implementation of its commitments under the WTO basic telecom agreement. The United States is particularly concerned about two aspects of Mexico’s telecommunications market that impede competition: a discriminatory surcharge placed on inbound international calls, and a failure to permit carriers to engage in unrestricted resale of telecommunications services in Mexico. The United States takes these issues extremely seriously and is committed to removing these market barriers. USTR is actively examining whether Mexico is in compliance with its WTO obligations. USTR intends to complete this examination as expeditiously as possible, and, based on the results of this examination, to take appropriate action-- including, if warranted, the initiation of WTO dispute settlement proceedings.

Japan. Although this year’s review did not reveal any specific violation of existing telecommunications agreements, the United States has serious concerns with the pace at which

Japan is introducing competition into its basic telecommunications service market, in accordance with its WTO commitments. In one of the most significant areas, ensuring timely, transparent, and cost-oriented interconnection, Japan could clearly do better. In the United States-Japan Enhanced Deregulation Initiative this issue has been discussed extensively and the United States expects that Japan will commit to improvements within the year. Failure to make such improvements could jeopardize the prospects for true competition to take root in Japan's telecommunications market.

While we welcome Japan's decision to permit unrestricted resale of international services, the United States will continue to monitor closely Japan's implementation of this and other WTO commitments. In addition, the United States will closely monitor implementation of the NTT Procurement Arrangement and the 1994 agreement covering the government procurement of telecommunications equipment and services. Implementation of these commitments regarding a wireless system to be procured by the National Police Agency, is of particular interest.